



Joe Morolong Local Municipality

(Registration number NC 451)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

Joe Morolong Local Municipality

(Registration number NC 451)

Annual Financial Statements for the year ended June 30, 2018

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Joe Morolong Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)
Mayoral committee	
Executive Mayor	Councillor D Leutlwetse (Mayor) Councillor V Jordan (Speaker) Councillor P J Witbooi (Chairperson Infrastructure) Councillor M Sephekolo (Chairperson Finance,HR and Admin) Councillor S Segano (Chairperson community services) Councillor L Seikaneng (Chairperson Planing and Development) Councillor L Kaebis (Chairperson Municipal Public Accounts)
Councillors	Councillor K Modise Councillor D Josop Councillor N Mokweni Councillor O Mokgautsi Councillor M Nhlapo Councillor M Godisamang Councillor G Kaotsane Councillor L Gwai Councillor S Dioka Councillor O Gaobodiwe Councillor N Morogong Councillor O Earabang Councillor I Matebese Councillor S Lentsela Councillor J Katong Councillor J Block Councillor T Sesing Councillor N Tswere Councillor K P Mosegedi Councillor G Tagane Councillor O Matsioloko
Grading of local authority	2
Accounting Officer	T Tlhoaele
Acting Chief Financial Officer	B D Motlhaping
Accounting Officers	Mr. T Tlhoaele
Business address	D320 Cardington Road Churchill Village 8474
Auditors	Auditor General of South Africa

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DSRAC	Department of Sport, Recreation, Arts and Culture
EPWP	Expanded Public Works Programme
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
LED	Local Economic Development
LG SETA	Local Government Sector Education and Training Authority
SALGA	South African Local Government Association
PAYE	Pay As You Earn
IPSAS	International Public Sector Accounting Standards
SDL	Skills Development Levy
SCM	Supply Chain Management
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
FMG	Financial Management Grant
MWIG	Municipality Water Infrastructure Grant
VAT	Value Added Tax

Joe Morolong Local Municipality

(Registration number NC 451)

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Accounting Officer's Responsibilities and Approval

The Accounting Officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officers to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officers is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officers have reviewed the municipality's cash flow forecast for the year to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Municipality grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The audit committee is responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5 to 73, which have been prepared on the going concern basis, were approved by the Accounting Officer on the 31 August 2018 and were signed on its behalf by him:

Accounting Officer
Mr T M Thoaele

Joe Morolong Local Municipality

Friday, August 31, 2018

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Accounting Officer's Report

The Accounting Officers submit their report for the year ended June 30, 2018.

1. Review of activities

2. Going concern

We draw attention to the fact that at June 30, 2018, the municipality had an accumulated surplus (deficit) of R 1,914,833,067 and that the municipality's total assets exceed its liabilities by R 1,914,833,067.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that national treasury will continue funding Municipality.

The ability of the municipality to continue as a going concern is dependent on Government Grants and subsidies.

3. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr T Gopetse	South African	Resigned Monday, October 9, 2017
Mr. T Tlhoaele	South African	Appointed Monday, October 9, 2017

5. Bankers

Standard Bank

ABSA

6. Auditors

Auditor General of South Africa.

7. Lawyers

Municipality appoint lawyers when a need arise.

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Annual Financial Statements for the year ended June 30, 2018

Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Cash and cash equivalents	3	698,773	2,340,147
Inventories	4	1,456,468	1,301,004
Receivables from exchange transactions	5	84,467,957	44,737,887
Receivables from non-exchange transactions	6	51,058,026	12,847,817
VAT receivable	7	44,574,197	22,444,806
		182,255,421	83,671,661
Non-Current Assets			
Property, plant and equipment	8	1,834,579,326	1,805,186,485
Intangible assets	9	265,906	414,390
		1,834,845,232	1,805,600,875
Total Assets		2,017,100,653	1,889,272,536
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	78,522,455	58,914,624
Finance lease obligation	11	1,432,522	16,172,602
Consumer deposits	12	10,635	68,579
Unspent conditional grants and receipts	13	6,143,529	350,953
Other financial liabilities	16	234,052	371,562
Employee benefit obligation	15	238,008	130,430
Bank Overdraft	3	9,017,501	27,267,443
		95,598,702	103,276,193
Non-Current Liabilities			
Other financial liabilities	16	1,055,891	1,296,475
Employee benefit obligation	15	1,660,628	1,438,762
Provisions	17	3,952,365	3,923,650
		6,668,884	6,658,887
Total Liabilities		102,267,586	109,935,080
Net Assets		1,914,833,067	1,779,337,456
Accumulated surplus		1,914,833,067	1,779,337,456

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Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	19	20,630,944	17,597,140
Miscellaneous Income		132,176	1,159,865
Rental of facilities and equipment	21	60,010	170,550
Interest from arrear accounts		12,594,897	11,010,893
Kumba Graduate Income		185,202	-
Sundry income	22	511,676	479,462
Interest received - investment and Bank account	23	1,585,333	3,828,101
Total revenue from exchange transactions		35,700,238	34,246,011
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	26,651,751	24,966,992
Transfer revenue			
Government grants & subsidies	25	220,909,471	280,272,092
Total revenue from non-exchange transactions		247,561,222	305,239,084
Total revenue	18	283,261,460	339,485,095
Expenditure			
Employee related costs	26	66,778,484	65,440,283
Remuneration of councillors	27	11,033,007	9,253,137
Depreciation and amortisation	28	47,597,968	15,314,726
Finance costs	29	730,783	3,057,438
Lease rentals on operating lease		4,780,966	-
Debt Impairment	33	9,590,558	-
Bulk purchases	30	15,509,402	11,017,753
Contracted services	31	15,392,947	37,561,857
Transfers and Subsidies	32	17,022,752	25,224,516
General Expenses	34	32,872,934	30,195,813
Total expenditure		221,309,801	197,065,523
Surplus for the year		61,951,659	142,419,572

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2016	1,636,917,884	1,636,917,884
Changes in net assets		
Surplus for the year	142,419,572	142,419,572
Total changes	142,419,572	142,419,572
Balance at July 1, 2017	1,852,881,408	1,852,881,408
Changes in net assets		
Surplus for the year	61,951,659	61,951,659
Total changes	61,951,659	61,951,659
Balance at June 30, 2018	1,914,833,067	1,914,833,067

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Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Sale of goods and services		26,256,368	9,302,981
Grants		227,053,000	286,293,067
Interest income		1,585,333	3,828,101
		<u>254,894,701</u>	<u>299,424,149</u>
Payments			
Employee costs		(75,131,700)	(74,694,420)
Suppliers		(65,133,154)	(85,887,234)
Finance costs		(730,783)	(2,999,646)
		<u>(140,995,637)</u>	<u>(163,249,129)</u>
Net cash flows from operating activities	39	<u>35,025,114</u>	<u>136,175,020</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(77,172,262)	(135,789,511)
Purchase of other intangible assets	9	(24,963)	(132,595)
Net cash flows from investing activities		<u>(77,197,225)</u>	<u>(135,922,106)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(378,094)	(327,438)
Finance lease payments		(14,746,080)	(18,144,875)
Net cash flows from financing activities		<u>(15,124,174)</u>	<u>(18,472,313)</u>
Net increase/(decrease) in cash and cash equivalents		16,608,568	(41,929,888)
Cash and cash equivalents at the beginning of the year		(24,927,296)	17,002,592
Cash and cash equivalents at the end of the year	3	(8,318,728)	(24,927,296)

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	18,381,675	-	18,381,675	20,630,944	2,249,269	
Miscellaneous Income	-	-	-	132,176	132,176	
Rental of facilities and equipment	95,000	-	95,000	60,010	(34,990)	
Interest on overdue account-other revenue	6,619,039	-	6,619,039	12,594,897	5,975,858	
Other income	28,145	-	28,145	185,202	157,057	
Other income - (rollup)	526,877	-	526,877	511,676	(15,201)	
Interest received - investment	847,424	-	847,424	1,585,333	737,909	
Total revenue from exchange transactions	26,498,160	-	26,498,160	35,700,238	9,202,078	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	29,848,447	-	29,848,447	26,651,751	(3,196,696)	
Transfer revenue						
Government grants & subsidies	231,696,000	-	231,696,000	220,909,471	(10,786,529)	
Total revenue from non-exchange transactions	261,544,447	-	261,544,447	247,561,222	(13,983,225)	
Total revenue	288,042,607	-	288,042,607	283,261,460	(4,781,147)	
Expenditure						
Employee costs	(62,061,097)	-	(62,061,097)	(66,778,484)	(4,717,387)	a
Remuneration of councillors	(10,423,014)	-	(10,423,014)	(11,033,007)	(609,993)	b
Depreciation and asset impairment	(10,000,000)	10,000,000	-	(47,597,968)	(47,597,968)	c
Finance costs	(655,983)	-	(655,983)	(730,783)	(74,800)	d
Lease rentals on operating lease	(17,920,000)	-	(17,920,000)	(4,780,966)	13,139,034	e
Debt Impairment	-	-	-	(9,590,558)	(9,590,558)	f
Bulk purchases	(13,339,502)	-	(13,339,502)	(15,509,402)	(2,169,900)	g
Contracted Services	(15,278,638)	-	(15,278,638)	(15,392,947)	(114,309)	h
Transfers and Subsidies	(20,208,367)	-	(20,208,367)	(17,022,752)	3,185,615	i
Debt Impairment	(44,167,455)	-	(44,167,455)	(32,872,934)	11,294,521	
Total expenditure	(194,054,056)	10,000,000	(184,054,056)	(221,309,801)	(37,255,745)	
Surplus before taxation	93,988,551	10,000,000	103,988,551	61,951,659	(42,036,892)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	93,988,551	10,000,000	103,988,551	61,951,659	(42,036,892)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	1,456,468	1,456,468	
Receivables from non-exchange transactions	-	-	-	51,058,026	51,058,026	
VAT receivable	-	-	-	44,574,197	44,574,197	
Consumer debtors	-	-	-	84,467,957	84,467,957	
Cash and cash equivalents	-	-	-	698,773	698,773	
	-	-	-	182,255,421	182,255,421	
Non-Current Assets						
Property, plant and equipment	-	-	-	1,834,579,326	1,834,579,326	
Intangible assets	-	-	-	265,906	265,906	
	-	-	-	1,834,845,232	1,834,845,232	
Total Assets	-	-	-	2,017,100,653	2,017,100,653	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	-	234,052	234,052	
Finance lease obligation	-	-	-	1,432,522	1,432,522	
Payables from exchange transactions	-	-	-	78,533,091	78,533,091	
Employee benefit obligation	-	-	-	238,008	238,008	
Unspent conditional grants and receipts	-	-	-	6,143,529	6,143,529	
Bank Overdraft	-	-	-	9,017,501	9,017,501	
	-	-	-	95,598,703	95,598,703	
Non-Current Liabilities						
Other financial liabilities	-	-	-	1,055,891	1,055,891	
Employee benefit obligation	-	-	-	1,660,628	1,660,628	
Provisions	-	-	-	3,952,365	3,952,365	
	-	-	-	6,668,884	6,668,884	
Total Liabilities	-	-	-	102,267,587	102,267,587	
Net Assets	-	-	-	1,914,833,066	1,914,833,066	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	-	1,914,833,064	1,914,833,064	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand					

Cash Flow Statement

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the Municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the Municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The Municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the Municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on payment history of consumers, age of consumer debtors older than 120 days and other indicators present at the reporting date that correlate with defaults on the portfolio.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The Municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including condition of asset .

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on entity combinations.

Useful lives and residual values

The Municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The Municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The Municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Long service awards

The long service awards liability arises from the Municipality being a party of Collective Agreement on Conditions of Service for Northern Cape Division of SALGBC. The long service award plan is a defined benefit plan accounted for in terms of GRAP.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and the cost or fair value of the investment property can be measured reliably.

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Accounting Policies

1.4 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the Municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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Accounting Policies

1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life

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1.5 Property, plant and equipment (continued)

Buildings	Straight line	25-30
Improvements	Straight line	25-30
Specialized plant and equipment	Straight line	10-15
Other plant and machinery	Straight line	2-15
Office equipment	Straight line	3-15
Furniture and fittings	Straight line	5-15
Motor Vehicles-Specialized	Straight line	10-15
Motor vehicle-other	Straight line	5-15
Roads and paving	Straight line	10-100
Pedestrian malls	Straight line	15-30
Electricity	Straight line	10-100
Community facilities	Straight line	15-30
Recreational facilities	Straight line	15-30
Leased asset	Straight line	3-5

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the Municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The Municipality assesses at each reporting date whether there is any indication that the Municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the Municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The Municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The Municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Site restoration and dismantling cost

The Municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a Municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the Municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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1.7 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivable from non exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Available-for-sale financial assets

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

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Accounting Policies

1.8 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the Municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the Municipality.

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1.10 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the Municipality; or
- the number of production or similar units expected to be obtained from the asset by the Municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The Municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the Municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the Municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the Municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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1.13 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the Municipality; or
- the number of production or similar units expected to be obtained from the asset by the Municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The Municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the Municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the Municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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Accounting Policies

1.14 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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1.15 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The Municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the Municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the Municipality considers that an outflow of economic resources is probable, an Municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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Annual Financial Statements for the year ended June 30, 2018

Accounting Policies

1.15 Provisions and contingencies (continued)

Provisions for restructuring costs

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
 - in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
 - a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
 - the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Joe Morolong Local Municipality

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1.17 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service charges

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest

Revenue arising from the use by others of entity assets yielding interest, or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a Municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

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1.18 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the Municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a Municipality either receives value from another Municipality without directly giving approximately equal value in exchange, or gives value to another Municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting Municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and/or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the Municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the Municipality.

When, as a result of a non-exchange transaction, the Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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1.18 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the Municipality.

Where the Municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Other donations and contributions

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Except for financial guarantee contracts, the Municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the Municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the Municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the Municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

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1.22 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by Municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2018.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

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1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the Municipality, including those charged with the governance of the Municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the Municipality.

The Municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the Municipality is exempt from the disclosures in accordance with the above, the Municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

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2. New standards and interpretations (continued)

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	April 1, 2099	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	April 1, 2099	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2099	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	April 1, 2099	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2099	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	April 1, 2099	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 1, 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 1, 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	April 1, 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	April 1, 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	April 1, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	April 1, 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	April 1, 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 1, 2019	Unlikely there will be a material impact

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2. New standards and interpretations (continued)

• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	April 1, 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	April 1, 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	April 1, 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	April 1, 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	April 1, 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	April 1, 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	April 1, 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	April 1, 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	April 1, 2018	Unlikely there will be a material impact

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 16 (as amended 2016): Investment Property	April 1, 2018	Unlikely there will be a material impact

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3. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	698,773	2,340,147
Outstanding payments	(9,017,501)	(27,267,443)
	<hr/>	<hr/>
Current assets	698,773	2,340,147
Current liabilities	(9,017,501)	(27,267,443)
	<hr/>	<hr/>
	(8,318,728)	(24,927,296)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
Standardbank-302854187	1,059,766	(93,406)	954,381	1,059,766	(93,406)	954,381
ABSA Bank limited-4054385292	1,333,072	879,248	587,374	1,333,072	879,248	587,374
ABSA Bank Limited-Call account:9288820487	289,453	278,765	261,528	289,453	278,765	261,528
First National Bank-Call deposit:62247117709	126,611	119,324	111,970	126,611	119,324	111,970
ABSA Bank Limited-Fixed deposit:2073969801	36,797	34,628	32,872	36,797	34,628	32,872
ABSA Bank Limited-Depositor plus:9297200038	2,525	261,810	244,913	2,525	261,810	244,913
Standardbank-Money Market call account-548529973003	86,235	81,467	76,735	86,235	81,467	76,735
Nedbank-Call deposit:7881112840	151,561	1,093,663	20,836,800	151,561	1,093,663	20,836,800
Standardbank-548529973002	5,591	5,465	-	5,591	5,465	-
Standardbank-5088662.43	-	465,040	-	-	465,040	-
Total	3,091,611	3,126,004	23,106,573	3,091,611	3,126,004	23,106,573

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4. Inventories		
Consumable stores	1,456,468	<u>1,301,004</u>
Inventory pledged as security		
There was no inventory pledged as security.		
5. Receivables from exchange transactions		
Gross balances		
Electricity	5,761,589	6,411,465
Water	55,080,499	55,239,238
Sewerage	7,178,140	5,379,422
Refuse	4,818,544	3,529,839
Sundry debtors	65,686,133	64,158,279
	<u>138,524,905</u>	<u>134,718,243</u>
Less: Allowance for impairment		
Electricity	(1,628,707)	(3,920,167)
Water	(17,832,975)	(38,218,281)
Sewerage	(2,925,462)	(22,837,200)
Refuse	(2,154,138)	(2,059,637)
Other debtors	(29,515,666)	(22,945,071)
	<u>(54,056,948)</u>	<u>(89,980,356)</u>
Net balance		
Electricity	4,132,882	2,491,298
Waste water	37,247,524	17,020,957
Sewerage	4,252,678	(17,457,778)
Refuse	2,664,406	1,470,202
Sundry debtors	36,170,467	41,213,208
	<u>84,467,957</u>	<u>44,737,887</u>
Electricity		
Current (0 -30 days)	88,641	301,438
31 - 60 days	126,253	91,989
61 - 90 days	133,882	137,420
91 - 120 days	211,998	196,593
121 - 365 days	1,205,940	1,381,420
> 365 days	3,988,153	3,537,172
	<u>5,754,867</u>	<u>5,646,032</u>
Water		
Current (0 -30 days)	1,831,581	2,025,423
31 - 60 days	1,822,064	1,605,696
61 - 90 days	1,740,150	1,612,592
91 - 120 days	1,801,274	1,454,320
121 - 365 days	12,929,995	21,975,039
> 365 days	29,371,613	24,409,194
	<u>49,496,677</u>	<u>53,082,264</u>

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5. Receivables from exchange transactions (continued)

Sewerage

Current (0 -30 days)	247,960	236,420
31 - 60 days	231,646	226,526
61 - 90 days	226,555	222,239
91 - 120 days	221,593	218,868
121 - 365 days	1,718,099	1,591,285
> 365 days	4,310,026	2,875,838
	6,955,879	5,371,176

Refuse

Current (0 -30 days)	145,739	138,612
31 - 60 days	143,154	131,291
61 - 90 days	140,083	128,862
91 - 120 days	136,917	126,645
121 - 365 days	1,079,145	913,619
> 365 days	3,099,843	2,089,253
	4,744,881	3,528,282

Other (Sundry debtors)

Current (0 -30 days)	194,513	202,764
31 - 60 days	153,536	560,868
61 - 90 days	91,545	52,320
91 - 120 days	106,777	45,431
121 - 365 days	772,342	528,647
> 365 days	61,095,062	59,495,883
	62,413,775	60,885,913

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5. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Households

Current (0 -30 days)	4,474,574	2,897,808
31 - 60 days	2,608,112	2,733,321
61 - 90 days	2,484,456	2,235,039
91 - 120 days	2,522,627	9,079,313
121 - 365 days	21,852,029	25,123,133
> 365 days	108,146,998	91,291,307
	142,088,796	133,359,921

Business

Current (0 -30 days)	1,719,628	1,534,491
31 - 60 days	932,776	805,683
61 - 90 days	853,387	832,662
91 - 120 days	918,142	6,100,254
121 - 365 days	16,759,550	4,443,118
> 365 days	28,776,817	17,546,015
	49,960,300	31,262,223

Goverment

Current (0 -30 days)	260,927	140,040
31 - 60 days	137,303	128,555
61 - 90 days	143,368	127,597
91 - 120 days	170,481	2,592,319
121 - 365 days	6,077,187	417,298
> 365 days	7,275,784	4,163,419
	14,065,050	7,569,228

Other

Current (0 -30 days)	10,473	3,489
31 - 60 days	2,831	3,879
61 - 90 days	2,814	3,269
91 - 120 days	2,782	20,770
121 - 365 days	15,312	2,309
> 365 days	29,361	1,560
	63,573	35,276

Less: Allowance for impairment

Current (0 -30 days)	(89,980,355)	(89,980,356)
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Reconciliation of allowance for impairment

Balance at beginning of the year	(89,980,356)	(67,143,156)
Debt impairment written off against allowance	-	(22,837,200)
	(89,980,356)	(89,980,356)

Consumer debtors pledged as security

There were no consumer debtors pledged as security.

Joe Morolong Local Municipality

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5. Receivables from exchange transactions (continued)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At June 30, 2018, R were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3,681,022	-
2 months past due	3,484,025	-
3 months past due	3,614,033	-

Consumer debtors impaired

As of June 30, 2018, consumer debtors less than 120 were not impaired and provided for.

The ageing of these receivable is as follows:

4 to 12 months	43,624,932	-
Over 12 months	139,918,935	-

Reconciliation of allowance for impairment of consumer debtors

6. Receivables from non-exchange

Gross balances		
Consumer debtors - Rates	<u>82,109,355</u>	<u>53,844,831</u>
Less: Allowance for impairment		
Rates	<u>(31,051,329)</u>	<u>(40,997,014)</u>
Net balance		
Consumer debtors - Rates	<u>82,109,355</u>	<u>53,844,831</u>
Rates		
Current (0 -30 days)	3,957,166	1,669,944
31 - 60 days	1,204,369	1,054,040
61 - 90 days	1,151,810	1,045,134
91 - 120 days	1,135,474	9,078,699
121 - 365 days	26,998,556	-
> 365 days	42,364,264	-
	<u>76,811,639</u>	<u>12,847,817</u>

7. VAT receivable

VAT	<u>44,574,197</u>	<u>22,444,806</u>
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Joe Morolong Local Municipality

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8. Property, plant and equipment

	2018		2017	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Land	7,169,289	-	7,169,289	7,169,289
Furniture and fixtures	3,018,433	(2,316,997)	701,436	2,771,836
Motor vehicles	2,286,498	(1,720,394)	566,104	2,286,498
Computer equipment	3,559,515	(2,492,375)	1,067,140	3,210,630
Infrastructure	1,594,117,808	(220,112,079)	1,374,005,729	1,593,734,860
Community	139,275,425	(38,495,822)	100,779,603	139,275,425
Other property, plant and equipment	3,268,679	(2,257,983)	1,010,696	3,170,964
Work in progress - Infrastructure	324,068,586	-	324,068,586	248,064,865
Finance leased asset	48,127,901	(22,917,158)	25,210,743	48,127,901
Total	2,124,892,134	(290,312,808)	1,834,579,326	2,047,812,268
				(242,625,783) 1,805,186,485

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land	7,169,289	-	-	-	7,169,289
Furniture and fixtures	666,409	246,596	-	(211,569)	701,436
Motor vehicles	1,014,844	-	-	(448,740)	566,104
Computer equipment	1,055,338	348,884	-	(337,082)	1,067,140
Infrastructure	1,593,472,360	475,346	(187,321,666)	(32,620,311)	1,374,005,729
Community	105,620,163	-	-	(4,840,560)	100,779,603
Other property, plant and equipment	1,287,765	97,715	-	(374,784)	1,010,696
Work in progress	248,064,865	76,003,721	-	-	324,068,586
Financed leased	48,127,901	-	-	(22,917,158)	25,210,743
Total	2,006,478,934	77,172,262	(187,321,666)	(61,750,204)	1,834,579,326

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	7,169,290	(1)	-	-	-	7,169,289
Furniture and fixtures	495,447	377,333	-	-	(206,371)	666,409
Motor vehicles	1,541,854	-	-	-	(527,010)	1,014,844
Computer equipment	801,969	684,097	-	-	(430,728)	1,055,338
Infrastructure	1,343,752,399	430,684	104,511,817	262,500	(42,714,308)	1,406,243,092
Community	110,460,721	-	-	-	(4,840,558)	105,620,163
Other property, plant and equipment	1,450,011	251,741	-	-	(413,987)	1,287,765
Work in progress	158,364,530	89,700,335	-	-	-	248,064,865
Other leased Assets # 1	41,238,148	1,216,199	-	-	(8,389,627)	34,064,720
Total	1,665,274,369	92,660,388	104,511,817	262,500	(57,522,589)	1,805,186,485

Assets subject to finance lease (Net carrying amount)

Finance leased assets	25,210,743	34,064,720
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Joe Morolong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

2018 2017

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Water	Total
Opening balance	75,325,515	110,929,541	61,845,807	248,100,863
Additions/capital expenditure	9,732,651	4,808,158	61,126,279	75,667,088
	85,058,166	115,737,699	122,972,086	323,767,951

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other Water	Total
Opening balance	58,569,835	109,958,088	51,928,633	220,456,556
Additions/capital expenditure	16,755,680	971,453	9,917,174	27,644,307
	75,325,515	110,929,541	61,845,807	248,100,863

Expenditure incurred to repair and maintain property, plant and equipment

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the Municipality.

9. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	989,558	(723,652)	265,906	964,595	(550,205)	414,390

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	414,390	24,963	(173,447)	265,906

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	535,819	132,595	(254,024)	414,390

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
10. Payables from exchange transactions		
Trade payables	40,996,815	3,626,584
Debtors with credit balances	9,561,018	9,561,018
Accrued expense	571,888	5,404,006
Bonus sec 57 managers	130,410	14,924,290
Sundry deposits	-	668,935
Retention fees	20,997,958	17,905,396
Accrued leave pay	3,607,937	3,834,176
13th Cheque	2,656,429	2,489,542
Retentions-Mine	-	500,677
	78,522,455	58,914,624

Other payables

11. Finance lease obligation

Present value of minimum lease payments due

- within one year	1,432,522	-
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It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was three years and the average effective borrowing rate was fixed -% (2017: 24%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

Defaults and breaches

[Explain details of any default during the period of principal, interest, sinking fund or redemption terms of loans payable. The carrying amount of loans in default is to be disclosed. Disclose whether the default was remedied, or whether the terms were renegotiated before the financial statements were authorized for issue.]

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	1,432,522	13,964,463
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For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note .

The fair value of finance lease liabilities approximates their carrying amounts.

12. Consumer deposits

Deposits received	10,635	68,579
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Joe Morolong Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

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13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Financial Management Grant (FMG)	121,174	-
Municipal Infrastructure Grant (MIG)	6,022,355	-
Library Grant, FMG and EPWP	-	350,953
	6,143,529	350,953

Movement during the year

Balance at the beginning of the year	350,953	381,030
Additions during the year	63,205,000	76,687
Income recognition during the year	(57,412,424)	(106,764)
	6,143,529	350,953

14. Other financial assets

15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1,898,636)	(1,569,192)
Non-current liabilities	(1,660,628)	(1,438,762)
Current liabilities	(238,008)	(130,430)
	(1,898,636)	(1,569,192)

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	1,569,192	1,389,713
Net expense recognised in the statement of financial performance	329,444	179,479
	1,898,636	1,569,192

Net expense recognised in the statement of financial performance

Current service cost	230,095	224,027
Interest cost	127,043	113,944
Actuarial (gains) losses	102,736	(42,104)
Settlement	(130,430)	(116,388)
	329,444	179,479

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.47 %	8.44 %
Expected increase in salaries	6.09 %	6.26 %
Net effective discount rate	2.24 %	2.05 %

Joe Morolong Local Municipality

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15. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

16. Long-term liabilities

At amortised cost

Development Bank of South Africa- Short term portion	234,052	371,562
Terms and conditions		
Development Bank of South Africa	1,055,891	1,296,475
Terms and conditions		

1,289,943 1,668,037

Total other financial liabilities

1,289,943 1,668,037

Non-current liabilities

At amortised cost	1,055,891	1,296,475
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Current liabilities

At amortised cost	234,052	371,562
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17. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Provision for landfill site	3,923,650	28,715	3,952,365

Reconciliation of provisions - 2017

	Opening Balance	Additions	Reversed during the year	Total
Provision for landfill site	3,518,969	404,681	-	3,923,650
Other provisions	1,126,416	-	(1,126,416)	-
	4,645,385	404,681	(1,126,416)	3,923,650

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
18. Revenue		
Service charges	20,630,944	17,597,140
Miscellaneous Income	132,176	1,159,865
Rental of facilities and equipment	60,010	170,550
Interest on arrear accounts	12,594,897	11,010,893
Kumba graduate program	185,202	-
Sundry Income	511,676	479,462
Interest received - investment	1,585,333	3,828,101
Property rates	26,651,751	24,966,992
Government grants & subsidies	220,909,471	280,272,092
	283,261,460	339,485,095
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	20,630,944	17,597,140
Royalty income	132,176	1,159,865
Rental of facilities and equipment	60,010	170,550
Interest on arrear account	12,594,897	11,010,893
Kumba graduate program	185,202	-
Sundry Income	511,676	479,462
Interest received - investment	1,585,333	3,828,101
	35,700,238	34,246,011
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue	26,651,751	24,966,992
Property rates		
Transfer revenue	220,909,471	280,272,092
Government grants & subsidies	247,561,222	305,239,084
19. Service charges		
Sale of electricity	7,712,303	4,584,267
Sale of water	9,650,662	10,000,528
Refuse removal	1,148,988	1,077,561
Sewerage and sanitation charges	2,118,991	1,934,784
	20,630,944	17,597,140
20. Sundry Income		
Kumba graduate program	185,202	-
Sundry Income	511,676	479,462
	696,878	479,462
21. Rental of facilities and equipment		
Premises	-	19,996
Premises		
Facilities and equipment		
Rental of facilities	60,010	150,554
	60,010	170,550

Joe Morolong Local Municipality

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Annual Financial Statements for the year ended June 30, 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
22. Other income		
Photocopies	7,089	7,927
Admin fees	21,140	12,752
Telephone cost reclaimed	86,676	101,561
Tender documents	243,651	156,930
Water connection fees	76,308	75,237
Grading fees	65,126	29,167
Cemetery fees	167	254
Insurance claims received	3,158	2,862
Cell phones Income	8,361	10,140
Donations	-	82,632
	511,676	479,462
23. Investment revenue		
Interest revenue		
Bank	1,585,333	3,828,101
24. Property rates		
Rates received		
Residential	11,112,212	12,369,739
Business	8,118,828	7,248,750
State	4,116,950	3,847,887
Agricultural	29,652,063	25,500,471
Less: Rebates	(26,348,302)	(23,999,855)
	26,651,751	24,966,992

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being Saturday, June 30, 2018. Interest at prime plus 1% per annum.

The new general valuation will be implemented on 01 July 20....

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Figures in Rand	2018	2017
25. Government grants and subsidies		
Operating grants		
Equitable share	116,210,000	110,502,871
Financial Management grant	2,023,826	1,742,408
Library grant	1,638,000	1,869,765
	119,871,826	114,115,044
Capital grants		
Provincial Dept of Housing grant	-	9,615,250
Municipal Infrastructure Grant (MIG)	55,037,645	57,839,000
South 32 Grant	-	12,477,893
Extended Public Works Programme (EPWP)	1,000,000	1,040,905
Water Service Infrastructure	45,000,000	85,184,000
	101,037,645	166,157,048
	220,909,471	280,272,092
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Extended Public Works Programme (EPWP)		
Balance unspent at beginning of year	-	9,095
Current-year receipts	1,000,000	1,050,000
Conditions met - transferred to revenue	(1,000,000)	(1,040,905)
Other	-	(18,190)
	-	-
Financial Management grant		
Balance unspent at beginning of year	67,592	-
Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,023,826)	(1,742,408)
Prior unspent withdrawn by national treasury	(67,592)	-
	121,174	67,592
Municipal Infrastructure Grant (MIG)		
Current-year receipts	61,060,000	57,839,000
Conditions met - transferred to revenue	(55,037,645)	(57,839,000)
	6,022,355	-
Library grant		
Balance unspent at beginning of year	350,953	350,953
Current-year receipts	1,638,000	1,763,000
Conditions met - transferred to revenue	(1,638,000)	(1,869,764)
Prior unspent withdrawn by national treasury	(350,953)	106,764
	-	350,953
Financial Management grant		

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Figures in Rand	2018	2017
25. Government grants and subsidies (continued)		
Current-year receipts	2,145,000	-
Conditions met - transferred to revenue	(2,023,826)	-
Unspent grant	(121,174)	-
	-	-
	-	-
South 32 Grant		
Current-year receipts	- 12,477,893	-
Conditions met - transferred to revenue	- (12,477,893)	-
	-	-
	-	-
Provincial Dept of Housing grant		
Current-year receipts	- 9,615,250	-
Conditions met - transferred to revenue	- (9,615,250)	-
	-	-
	-	-
Water Service Infrastructure		
Current-year receipts	45,000,000	85,184,000
Conditions met - transferred to revenue	(45,000,000)	(85,184,000)
	-	-
	-	-

Joe Morolong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Employee related costs		
Basic	35,232,754	32,633,985
Bonus	5,213,215	4,799,728
UIF	317,522	301,702
SDL	471,031	497,793
Leave pay provision charge	3,607,937	3,834,176
Pension Fund	5,873,303	5,353,605
Travel, motor car, accommodation, subsistence and other allowances	2,696,599	2,562,488
Overtime payments	770,592	1,775,884
Long service cost	329,444	179,479
Transport allowance (bus coupons)	5,364,403	6,624,271
Housing benefits and allowances	2,555,245	2,767,493
Cell Phone Allowance	544,121	649,900
Industrial Council	40,066	17,833
	66,778,484	65,440,283
Remuneration of municipal manager		
Annual Remuneration	510,383	610,457
Subsistence Allowance	31,500	87,000
Public Office Allowance	27,000	80,000
Cell Phone Allowance	-	35,000
Transport Allowance	304,000	300,000
Travel Claim received	-	93,338
Leave days sold	-	21,284
Housing Allowance	74,630	-
	947,513	1,227,079
Remuneration of Chief Finance Officer		
Annual Remuneration	459,645	451,126
Public Office Allowance	60,000	60,000
Cell Phone Allowance	14,400	14,400
Transport Allowance	197,000	192,000
Travel Claim received	31,632	62,556
Housing Allowance	170,302	185,784
Back pay	25,927	80,300
	958,906	1,046,166
Remuneration of the corporate services manager		
Annual Remuneration	429,816	423,817
Public Office Allowance	81,310	77,097
Cell Phone Allowance	14,400	14,400
Transport Allowance	198,500	210,000
Travel Claim received	-	24,658
Housing Allowance	184,004	177,996
Acting Allowance	117,773	78,516
	1,025,803	1,006,484
Remuneration of community services manager		
Annual Remuneration	282,000	480,000
Public Office Allowance	37,353	61,116
Cell Phone Allowance	8,400	14,400

Joe Morolong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Employee related costs (continued)		
Transport Allowance	79,897	155,794
Travel Claim received	-	54,708
Housing Allowance	110,000	192,000
	517,650	958,018

Joe Morolong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Employee related costs (continued)		
Remuneration of the technical services manager		
Annual Remuneration	306,249	524,998
Public Office Allowance	1,200	-
Cell Phone Allowance	8,400	13,200
Transport Allowance	112,000	192,000
Travel Claim received	69,411	148,005
Housing Allowance	100,282	171,912
	597,542	1,050,115
Remuneration of the Local Economic Development manager		
Annual Remuneration	441,214	433,413
Public Office Allowance	79,517	77,097
Cell Phone Allowance	14,400	3,600
Transport Allowance	230,000	224,000
Travel Claim received	-	14,659
Housing Allowance	160,400	154,400
Back pay	22,373	4,800
	947,904	911,969
27. Remuneration of councillors		
Mayor	489,064	404,245
Speaker	372,824	352,852
Chief Whip	372,824	352,852
Mayoral Committee Members	1,137,978	1,012,844
Ordinary Councillors	3,734,067	3,184,624
Travel Allowance	2,393,127	2,434,707
Pension fund	948,583	843,669
Data and Cell Phone Allowance	939,600	667,344
Public Office Allowance	644,940	-
	11,033,007	9,253,137
28. Depreciation and amortisation		
Property ,plant and expenditure	47,597,968	15,314,726
29. Finance costs		
Current borrowings	702,068	2,652,757
Other interest payable-Provision for landfill site	28,715	404,681
	730,783	3,057,438
30. Bulk purchases		
Electricity	7,280,035	6,062,456
Water	8,229,367	4,955,297
	15,509,402	11,017,753

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
31. Contracted services		
Presented previously		
Legal fees	553,186	1,081,075
Private security	2,081,129	2,070,055
Consultancy fees	12,154,977	33,146,559
Valuation roll	603,655	1,264,168
	<hr/>	<hr/>
32. Grants and subsidies paid		
Other subsidies		
Dry sanitation VIP	17,022,752	25,224,516
	<hr/>	<hr/>
33. Debt impairment		
Debt impairment	9,590,558	-
	<hr/>	<hr/>
34. General expenses		
Advertising	311,857	270,458
Auditors remuneration	3,221,377	3,609,890
Bank charges	193,078	230,265
Cleaning	338,435	126,646
Computer expenses	-	298,679
Stores and materials	2,031,114	3,277,691
Entertainment	263,938	197,423
Insurance	465,229	968,599
Departmental expenses	120,579	1,234,366
Conferences and seminars	95,385	144,992
IT expenses	1,215	123,145
Other expenses	118,557	459,541
Levies	126,572	65,789
Magazines, books and periodicals	229,508	36,567
Motor vehicle expenses	3,036	4,241
Connection cost	-	214,122
Fuel and oil	4,823,268	5,630,319
Postage cost	11,952	29,874
Printing and stationery	469,584	341,497
Protective clothing	12,650	507,211
Repairs and maintenance	1,858,204	1,953,353
Cemetery cost	1,835,504	948,172
Name branding	1,382,210	340,885
Subscriptions and membership fees	562,156	507,089
Telephone and fax	1,279,030	1,098,965
Training	1,026,844	1,146,233
Office service charges	3,801,234	485,844
Tourism cost	-	55,000
Pump operation cost	2,941,675	2,010,155
Ward committee expenses	686,455	430,375
Community participation and HIV	393,307	656,699
Name branding	9,525	205,300
Maintenance agreement-Nashua lease expense and other	4,259,456	2,586,428
	<hr/>	<hr/>
	32,872,934	30,195,813
35. Auditors' remuneration		
Fees	3,221,377	3,609,890

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36. Repairs and maintenance

Building repairs	217,096	378,997
IT repairs	214,807	77,166
Road signs and general repairs	26,519	169,360
Air conditioner maintenance	56,486	1,120
Electrical maintenance	128,500	157,000
Water and vehicle maintenance	691,786	876,647
• Vehicle maintenance	496,712	293,063
• Water and Borehole maintenance		
	1,831,906	1,953,353

37. Loans to (from) economic entities

38. VAT payable

39. Cash generated from operations

Surplus	61,951,659	142,419,572
Adjustments for:		
Depreciation and amortisation	47,597,968	15,314,726
Debt impairment	9,590,558	-
Movements in retirement benefit assets and liabilities	329,444	179,479
Movements in provisions	28,715	404,681
Changes in working capital:		
Inventories	(155,464)	1,126,043
Consumer debtors	(49,320,628)	(40,577,107)
Other receivables from non-exchange transactions	(38,210,209)	13,920,183
Payables from exchange transactions	19,549,886	20,810,172
VAT	(22,129,391)	(17,253,175)
Taxes and transfers payable (non exchange)	-	(139,477)
Unspent conditional grants and receipts	5,792,576	(30,077)
	35,025,114	136,175,020

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40. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

Financial liabilities

	At amortised cost	Total
Loans from DBSA	1,289,943	1,289,943

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41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Ho Tla Ba Thata Trading	1,432,522	16,045,972
• Ditiro Tsa Ka Trading 6	22,259,097	-
• Tsela Tswu & Loshepe	2,657,323	5,441,799
• BMH Engineers	12,472,494	7,794,941
	38,821,436	29,282,712
Total capital commitments		
Already contracted for but not provided for		
	38,821,436	29,282,712
Authorised operational expenditure		
Already contracted for but not provided for		
• Carouspan/Nashua	327,959	818,068
• Carouspan/Nashua	293,348	528,026
• Maiktronix	198,509	674,931
• Maiktronix	121,550	413,271
• MK Security	866,043	2,165,107
• Sebata Municipal Solution	1,017,120	2,034,240
• ARMS Consulting	-	568,813
• Mmabasotho Tax Consultants	-	14,857,464
• SWM Holdings	-	198,333
• Imani Business Advisory	2,713,200	9,767,520
• Bsfour 2730	66,317	-
• Better Brokers	408,484	816,968
• Sedibeng water	15,854,373	24,320,772
• Modirwa	-	266,772
	21,866,903	57,430,285
Oustanding orders		
• Capital	104,000	-
• Operational	627,413	-
	731,413	-
Total operational commitments		
Already contracted for but not provided for	21,866,903	57,430,285
Not yet contracted for and authorised by accounting officers	731,413	-
	22,598,316	57,430,285
Total commitments		
Total commitments		
Authorised capital expenditure	38,821,436	16,045,972
Authorised operational expenditure	5,536,997	32,025,772
	44,358,433	48,071,744

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

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42. Contingencies

Demora -Modiles JV vs Joe Morolong Local Municipality &Other.

Review Application of tender 145/2016 Fencing of Municipal Yard. Contempt of Court order made in between was dismissed.
Obakeng Donald Gabotshileli obo T.G Thipe vs Joe Morolong Local Municipality

The Municipality and ESKOM is sued for damages arising from injuries sustained by a minor child who died as a result of the electrical poles and electrical wire which was utilized for the purpose of distributing and transmitting electrical current in our area of jurisdiction belonging to ESKOM. Payment of damages to the Plaintiff in his personal or representative capacity in the sum of R12 950 000,00. The Municipality is opposing the application.. The contingent liability is based on last year confirmation since there has been no progress in the case. Municipality also appoint lawyers once the court date is set. There for no lawyers currently allocated the case to do current year confirmation.

Mma-Boitumelo Boneilwe Mang vs Joe Morolong Local Municipality

A claim of R180 520. 00 emanating from a purchase order issued to the company and later cancelled. However cancellation was not communicated to the supplier.. Intention to sue was used to raise contingent liability. no set date for court and therefore no confirmation could be obtained as there are no lawyers appointed.

43. Related parties

There were no related parties identified in the declaration of interest register and all account of councillors leaving within the wards are up to date.

44. Prior period errors

Property, plant and equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

The correction of the error(s) results in adjustments as follows:

45. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

	Note	As previously reported	Correction of error	Restated
Vat receivable		22,268,455	176,351	22,444,806
Property, plant and equipment		1,803,725,312	1,308,599	1,805,033,911
Finance lease obligation		15,281,911	890,691	16,172,602
Unspent conditional grant		336,303	14,650	350,953
Bank overdraft		29,053,447	(1,786,004)	27,267,443
Payables from exchange transaction-Accrued expense		5,422,331	(18,325)	5,404,006
		1,876,087,759	585,962	1,876,673,721

Statement of financial performance

2017

	Note	As previously reported	Correction of error	Restated
Interest received-Investment in bank account		2,042,096	1,786,005	3,828,101
Depreciation and amortisation		15,271,276	43,450	15,314,726
General expenditure		28,338,535	(96,075)	28,242,460
Surplus for the year		45,651,907	1,733,380	47,385,287

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45. Prior-year adjustments (continued)

Cash flow statement

2017

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Sale of goods and services		6,235,207	3,067,774	9,302,981
Interest income		2,042,096	1,786,005	3,828,101
Suppliers		(86,397,573)	510,339	(85,887,234)
		(78,120,270)	5,364,118	(72,756,152)
Cash flow from investing activities				
Purchase of property plant and equipment		(133,359,852)	(2,429,659)	(135,789,511)
Cash flow from financing activities				
Finance lease payment		(18,144,874)	(1)	(18,144,875)

Unspend grant

Unspent grant was adjusted with R14 650 error correction for order incorrcorrectly posted as accrual at year end. Year end accrual was derecognised to correct the error.

[If retrospective restatement is impracticable for a particular prior period, disclose the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.]

The following prior period errors adjustments occurred:

Payables from exchange transaction-accrued expense and general expenses

Ward committees expenses amount to R3 674 and orders of R14 650 incorrectly raised as accrual at year end adding to R 18 325. Journal was posted to derecognise accrual of R18 325 to correct the error.
General expenses decrease with R96 075, which is store items incorrectly expense in wrong period amount to R92400 and ward committee expenses amount to R3 675.

Vat receivables

[Vat input creditors in vote 7501/7505/7503 amount to R176 350.87 incorrectly expenses. Journal was posted to correct error of vat incorrectly expensed.

Propert plant and equipment and depreciation

[Finance lease adjustment for Mercedice benz cost R 1 259 649.13 erroneously not capitalized less accumulated depreciation error correction -R43 450.15 plus water assets adjustment amount to R262 500 incorrectly expensed to store items less store items incorrectly capitilized amount to R170 100. Finance lease cost adjusted by accumulated depreciation ; water asset incorrectky expnsed and stores items incorrectly capitalized add to R1 308 598.98 error corrected in Property ,plant and equipment.

Bank overdraft and Interest received

Interest received from investment incorrectly not recognised to interest income at year of R1 459 832.39 , R318 369.86 and R7 802.75 adding to R1 786 005. The interest was left in suspense account at year end.

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45. Prior-year adjustments (continued)

Finance lease obligation

Repairs and insurance cost for finance lease incorrectly capitalized to lease obligation payment amount to R18 323. Error was corrected by derecognising expense from lease payment for capital portion.

Cash flows from operating activities

Interest received from investment incorrectly not recognised to interest income at year of R1 459 832.39 , R318 369.86 and R7 802.75 adding to R1 786 005. The interest was left in suspense account at year end.

Cash received from sale of goods /services erroneously not included at year end R3 067 774.

Payment to suppliers error corrections of R510 339 non cash item included in cash flow statement.

Cash flows from investing activities

Additions in projects amount to R2 429 659 erroneously not included in investing activities in purchases for property plant and equipment.

Cash flows from financing activities

Error correction in finance lease due to rounding off amount to R1

46. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

47. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. There is no indication from national treasury to stop funding the municipality in the current financial year.

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48. Unauthorised expenditure		
Opening balance	447,868,454	385,901,653
Unauthorised expenditure	7,943,950	61,966,801
Unauthorised expenditure under investigation	455,812,404	447,868,454
49. Fruitless and wasteful expenditure		
Opening balance	3,550,386	1,079,623
Fruitless and wasteful expenditure	492,248	2,470,763
Fruitless and wasteful expenditure under investigation	4,042,634	3,550,386
50. Irregular expenditure		
Opening balance	119,133,739	88,719,822
Add: Irregular Expenditure - current year	6,815,622	30,413,917
Irregular expenditure under investigation	125,949,361	119,133,739
51. Additional disclosure in terms of Municipal Finance Management Act		
Audit fees		
Current year subscription / fee	3,221,377	3,609,893
Amount paid - current year	(3,221,377)	(3,609,893)
	-	-
PAYE and UIF		
Opening balance	1,108,101	829,938
Current year fee	953,596	7,837,225
Amount paid - current year	(953,596)	(7,559,062)
Amount paid - previous years	(1,108,101)	-
	-	1,108,101
Pension and Medical Aid Deductions		
Current year subscription / fee	5,064,286	3,132,007
Amount paid - current year	(5,064,286)	(3,132,007)
	-	-
VAT		
VAT receivable	44,574,197	22,444,806

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2018:

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

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52. Deviation from supply chain management regulations

Repairs of the Finstel server

Mr Night Fox and IT solutions-Server could not be sent to different service providers for dismantling, assessment and quoting due to saving the sensitivity and caution of preserving the data and cost saving amount R 87 636.00.

Accommodation for councillors

There are only two hotels in Van Zylsrus namely Kgalagadi Guest house and Van Zylsrus hotel. Galahadi Guest House is not registered on the Central Supplier Database (CSD) so we recommend Van Zylsrus Hotel as they meet all the necessary requirements amount R3 480.00.

SIPDM Training

CESA has been appointed by National Treasury to provide a SIPDM (Standard for Infrastructure Procurement and Delivery Management Training amount to R3 078.00.

Repairing of FMS server

For recovering data from the FMS server on the 03 July 2017 as the information was needed urgently and Tech Leo were the only service provider that could assist on a very short notice. Accommodation for five officials We have contacted several service providers around Kuruman namely Kuru Kur Guest House, Kuruman Inn, Gaabo Motlo guest house, Safari travel lodge, Die Oog Gastehuis, they were all fully booked on the requested dates , except for Davince guesthouse and as result their quotation was accepted amount to R14 000.00.

Accommodation for Councillors

We have contacted several service providers around Kimberly namely Kalahari Lodge, Cardington Lodge, Protea hotel, Garden Court, Kimberly Club and they were fully booked on the requested dates, except for Boitumelo Jwa Sechaba and OAK Rest B&B as a result Boitumelo jwa sechaba was chosen a the price for both Guest House was the same amount R9 800.00.

Accommodation for Mr Legalamitwa and Mr Tolo

There are only two hotels in Van Zylsrus namely Kgalagadi guest and Van Zylsrus hotel. Kgalagadi guest house is not registered on the Central Supplier Database (CSD) so we recommend Van Zylsrus Hotel as they meet all the necessary requirements amount to R3800.00.

Advert for placement of public notice for resolution on levy on property rates 1/07/2017 to 30/06/2018

Government printing is the sole custodian of Northern Cape Province Gazette amount to R1000.00.

Advertisement for section 57 management (Directors)

Local Newspapers Noordkaap and CN Express, Kalahari bulletin and DFA were contacted to request quotation of a vacancies advert and only two Noordkaap & NC Express and DFA quoted for us. DFA was then used for advertisement amount to R14 993.23. Advertisement for Section 57 Managers (Directors) National Newspaper (City Press, Sowetan & Sunday World and Sunday Times) were contacted to request quotations of vacancies advert and two Sowetan & Sunday World and City Press quoted us. The Sowetan and Sunday world were the lowest but due to the publication date being 14&19 November 2017. City Press was then used for advertisement amount to R86 184.00.

Request for PEP voucher

Quotations were outsourced from different service providers but their pricing were too high due to the fact that all were requested from different PEP outlets R12 600.00.

Procurement of three cylinder engines

We have received an urgent request to purchase 3 cylinder engines for Makhubung village. There was serious water crisis in the village resulting in the community embarked on riots. The meeting was arranged with community members and Municipality assured them that the matter will be treated as matter of urgency amount to R170 569.08.

Procurement of 1XMono Element BP9 and 2XMono element BP12.

We have received an urgent request to purchase three cylinder engines for Makhubung Village amount to R42 352.54.

Repairs and installation of Heuningvlei Booster pump

We have received an urgent request for service provider to supply and install heuningvlei Booster pump that supply Makhubung village with water amount to R35 280.00.

Accommodation for Mayor

There is only one guest house situated in Heuningvlei village as a result of the officials had to attend the meeting held on the 28 March 2018 amount to R5 450.00.

Procurement for Annual renewal of traffic Act

Lewis Nels is the sole provider for South African Road Traffic and Road Transport Legislation publication authorised by Alta Swanepoel amount to R6 935.00

Total amount for deviation add to R503 367.85.

53. Budget differences

Material differences between budget and actual amounts

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53. Budget differences (continued)

There were no other material differences between the final budget and the actual amounts.
a-Employee related cost increased due to overtime and travel claims.

b-Remuneration for councillors increased due to travel claim.

c-Decpreciation increase due infrastructure assets depreciation.

d-Finance cost increased due to increase in inflation.

e-Lease rental variance is due to lease expenses payment for capital portion for lease obligation capitalized to lease obligation.

f-Debt impairment provision was provided in the current financial year.

g-Bulk purchases decrease due to water pumped by municipality in the current financial year and less purchases were made.

h-Contracted services increases due to increase in vat.

i-Transfer and subsidies reduced due to projected related expenses capitalized in the current financial year.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report